

TREASURY - GENERAL

STATE INVESTMENT COUNCIL

Collateralized Notes and Mortgages

Proposed Amendments: N.J.A.C. 17:16-19.1 and 19.2

Authorized By: State Investment Council, Peter A. Langerman, Acting Director
Division of Investment

Authority: N.J.S.A. 52:18A-91

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2003-172

Submit comments by July 4, 2003 to:

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The agency proposal follows:

Summary

The proposed amendments will permit the Division to purchase asset-backed securities (ABS), which are bonds or notes backed by a variety of financial assets other than mortgage loans, such as credit card receivables, auto loans, manufactured housing contracts and home equity loans. The ABS market has become a significant component of the overall investment grade fixed income market and may offer an attractive risk/return profile relative to corporate bonds. Investment in this type of instrument will provide greater flexibility due to the current

lack of liquidity in the cash market for investment grade debt. Because the Division is providing a 60-day comment period on

this notice of proposal, this notice is exempt from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

There shall be no social impact from the proposed amendments.

Economic Impact

The proposed amendments have the potential of earning returns that will benefit the beneficiaries of the funds and the taxpayers of the State.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the Division of Investment are under the auspices of the State Investment Council, and are not subject to any Federal requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

Agriculture Industry Impact

The proposed amendments shall have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required, since the proposed amendments impose no requirements on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulate only the Director of the Division of Investment.

Smart Growth Impact

The proposed amendments are not anticipated to have an impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

17:16-19.1 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest or reinvest the moneys of any pension and annuity group in securities which are fully collateralized by high quality [marketable debt] mortgage-backed securities; credit card receivables; bank loans; automobile loans; home equity loans; and other forms of collateral provided:

1. The obligor[:]
 - i. Is incorporated or chartered under the laws of the United States; or any State thereof or the District of Columbia;
 - ii. Is] not in default as to the payment of principal or interest upon any of its outstanding obligations;
2. The collateral:
 - i. [Must consist of obligations of the Government National Mortgage Association whose market value at the end of each quarter of each year is equal to 150 percent of the principal amount then outstanding;] Must be mortgage-backed securities, credit card receivables, automobile loans, home equity loans, bank loans or other forms of receivables originated in the United States;
 - ii. Must be fully maintained and not under the direct control of the [issuer of] originator of the collateral underlying the obligation, but under the control of a trustee, special purpose vehicle or other independent entity incorporated in the United States;

3. No amount in excess of one-third of any one issue may be purchased. For the purpose of this limitation, the issue size shall be considered as the principal amount issued pursuant to all classes of securities payable from the returns generated by the underlying collateral;
4. Not more than two percent of the assets of any one fund at the time of purchase shall be invested in the obligations of any one [company] issue; [and]
5. Not more than 10 percent of the assets of any one fund at the time of purchase shall consist of collateralized notes and mortgages purchased pursuant to this rule; and
- [5] 6. The issue must be rated [A] BBB or better by Standard & Poor's Corporation and Moody's Investors Service, Inc., excepting that one rating is sufficient if only one rating is available.

17:16-19.2 Legal papers

(a) Prior to any commitment to purchase obligations of the type described in this subchapter, the Director shall have obtained:

1. - 2. (No change.)
3. In the case of an issue not registered with the Securities and Exchange Commission, the Director shall obtain, in addition to the above
 - [i. Such] such other documents or opinions which the Attorney General may require[; and]_.
 - [ii. A written approving opinion from the Attorney General to the effect that all such documents and opinions received by the Director are satisfactory as to form and substance.]